Agenda Date: 4/12/06
Agenda Item: 2A

STATE OF NEW JERSEY
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

ENERGY

IN THE MATTER OF THE PETITION OF NEW JERSEY) NATURAL GAS COMPANY FOR THE ANNUAL REVIEW) AND APPROVAL OF ITS BASIC GAS SUPPLY SERVICE (BGSS) FOR F/Y 2006	ORDER ADOPTING PARTIAL STIPULATION DOCKET NO. GR05060488

(SERVICE LIST ATTACHED)

BY THE BOARD:

This Order concerns the review by the Board of Public Utilities ("Board" or "BPU") of an Order Approving Partial Stipulation issued by an Administrative Law Judge ("ALJ") on February 10, 2006. The ALJ's Order does not dispose of all matters under consideration in this docket. It specifically concerns New Jersey Natural Gas Company's ("NJNG" or "the Company") request for approval of a one-year extension of all Basic Gas Supply Service ("BGSS") related incentive programs that were originally approved by the Board in an Order dated November 13, 2003 in BPU Docket No. GR02100760.

BACKGROUND

On June 1, 2005 NJNG filed its annual BGSS petition seeking to increase its BGSS commodity charge for all applicable service classifications by 4.2%, from $0.8921 per therm (including SUT) to $0.9461 per therm (including SUT), to become effective October 1, 2005. Additionally, the Company sought Board approval of a one-year extension of all BGSS related incentive programs that were approved by the Board in an order dated November 13, 2003 in BPU Docket No. GR02100760.

A public hearing on this petition was held on August 5, 2005, in Freehold Borough. Subsequently, on August 19, 2005, the Board provisionally approved the Company's requested BGSS increase subject to review and refund following a full review by the Division of the Ratepayer Advocate ("RPA") and Board Staff.

Shortly after the Board's August 19, 2005 Order implementing provisional BGSS rates, Hurricanes Katrina and Rita struck the Gulf Coast, resulting in further increased wholesale natural gas costs. In response, on November 10, 2005, NJNG, as well as the other three natural gas public utilities in the State of New Jersey, filed Motions for Emergent Rate Relief. NJNG sought to increase its BGSS commodity charge for all applicable service classifications from the $0.9461 per therm (including SUT) approved on August 19, 2005 to an after-tax rate of $1.2597 per therm. A supplemental public hearing was held on December 6, 2005 at the Freehold Township Municipal Building. Subsequently, on December 14, 2005, the Board approved a stipulation agreed to by the Company, the RPA, and Board Staff (hereinafter, "the Parties") wherein the parties agreed to a provisional increase in the rate as requested by NJNG in the Motion. The Board's December 14, 2005 Order further provided that there would be no self-implemented increases made by the Company this winter. Additionally, the December 14, 2005 Order made clear that the Board's approval was provisional and would be subject to review and refund following a full review by the parties. The Board also directed Board Staff to initiate a process for retaining an outside consultant to analyze the gas hedging practices of all four gas distribution companies and to provide the Board with reports and recommendations regarding these practices.

This matter was then transmitted to the Office of Administrative Law ("OAL") as a contested case and assigned to the Honorable Diana C. Sukovich, ALJ.

PARTIAL SETTLEMENT (Incentive Programs)

While discovery has progressed in accordance with the procedural schedule established by the ALJ, the parties have also met to discuss the matters at issue in this proceeding and, as a result of those discussions; the parties reached a partial settlement concerning NJNG's incentive programs currently in effect. The partial settlement does not in any way address the BGSS provisional rate approved by the Board on December 14, 2005 and does not alter the provisional status of that rate.

Under the terms of the partial stipulation, the parties agreed that certain BGSS incentives approved by the Board on November 13, 2003 in Docket No. GR02100760 will be extended for one year to October 31, 2007. The BGSS related incentive programs that will continue by the terms of the partial stipulation are as follows:

1 Off-System Sales and Capacity Release – The Company's current off-system sales and capacity release incentive programs, pursuant to which margins generated by off-system sales and released firm capacity are shared between customers and the Company on an 85/15 percentage basis shall continue as currently structured until October 31, 2007.

2. Financial Risk Management (FRM) – The purpose of this program is to provide customers with the benefits of financial risk management tools through the acquisition of risk management expertise and the application of risk management techniques. The benefits from the FRM are shared between customers and the Company on an 80/20 percentage basis. The FRM shall continue as currently structured until October 31, 2007.

3. On-System Interruptible Sales, Transportation and Other Sharing - The Company's current incentive programs applicable to: (i) sales of gas to the Sayreville and Forked River Electric Generation Plants, pursuant to which margins are shared between customers and the Company on a 90/10 percentage basis, after an initial contribution to customers of $0.01 per therm; (ii) on-system interruptible sales of gas, pursuant to which margins are shared between customers and the Company on a 90/10 percentage basis; and (iii) on-system interruptible transportation, pursuant to which margins are shared between customers and the Company on a 95/5 percentage basis will continue until October 31, 2007. Since the Market Development Fund ("MDF")[1] will expire as of October 31, 2006, as of November 1, 2006, the initial five percent generated from the on-system interruptible transportation incentive will no longer be credited to the MDF and will, instead, revert to the former mechanism where those margins are shared between customers and the Company on a 95/5 percentage basis.

4. Storage Incentive - A multi-year Storage Incentive Program applicable to storage injections was initiated by the Company subsequent to an agreement reached among the parties in BPU Docket No. GR02100760 and approved by the Board in an order dated November 13, 2003. Pursuant to this program, customers and the Company share storage-related gains and losses on an 80/20 percentage basis, as measured by the difference between the actual cost of storage incurred by the Company (including the cost of the physical commodity, transportation costs, and financial hedging costs) and an agreed-upon storage inventory cost benchmark established through NYMEX forward prices applicable to the April through October injection session, plus projected transportation costs. Speculative trading activity is not permitted under NJNG's current Risk Management Guidelines ("Guidelines"). If those Guidelines change such that speculative trading is permitted, NJNG will notify the Parties. The Parties agree that if any such speculative trading should occur, any losses thereto will be absorbed one hundred percent by the Company. Any gains from such trading will be shared with customers as outlined above. Exhibit A to the Partial Stipulation provides examples of transactions that would and would not be considered speculative trading. The term of the Storage Incentive Program shall continue through October 31, 2007. The storage capacity include in the program shall not be increased from 18bcf during this time frame.

NJNG further agreed that a review of the existing structure of the BGSS incentives is appropriate and committed to initiating discussions among the Parties by no later than May 15, 2006 concerning potential changes to the BGSS incentives. Based on the outcome of those discussions, by September 15, 2006 the Company would file with the Board a proposal concerning BGSS incentives to be effective after October 31, 2007. NJNG intends to include in the filing a proposal to modify the sharing provisions and address interest treatment for storage inventory balances within the Storage Incentive program.

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[1] In the unbundling proceeding (BPU Docket No. GO99030123), the Board approved an NJNG proposal that certain funds made available through prior tax changes be used to establish the MDF as an additional means of encouraging third party supplier ("TPS") activity in New Jersey.

The Partial Stipulation also makes clear that nothing in the partial stipulation shall preclude the Board from taking actions determined to be necessary as a result of any analysis of NJNG's gas hedging practices completed in accordance with the Board's direction in the December 15, 2005 Order.

On February 10, 2006, the ALJ issued an Order Approving the Partial Stipulation

DISCUSSION AND FINDINGS

The Board has carefully reviewed the record to date in this proceeding including the ALJ's Order Approving Partial Stipulation. The Board HEREBY FINDS the Partial Stipulation as clarified below, to be reasonable and in the public interest. Accordingly, the Board HEREBY ADOPTS the ALJ's Order Approving Partial Stipulation, as clarified below, in its entirety and HEREBY INCORPORATES the terms of the Partial Stipulation, as clarified below, as if fully set forth herein.

This Order does not address the BGSS rate approved on a provisional basis by the Board on December 14, 2005. Accordingly, nothing in this Order shall be interpreted or construed to alter the provisional status of that rate. All issues not specifically resolved in the Partial Stipulation remain subject to review during the course of the evidentiary proceedings, which remain in the OAL as a contested case pending before ALJ Sukovich.

On March 17, 2006, NJNG filed a letter with the Board clarifying certain definitions in the Partial Settlement that was executed on January 26, 2006. In discussions between the Parties, it was determined that the phrase "speculative trading" contained in Paragraph 11(d), Storage Incentive of the attached Partial Settlement should be more specifically defined. It was agreed by the Parties that for the purposes of this Partial Settlement, the term "non-speculative trading" is the buying and selling of equal volumes, which occur at the same time. That is, a position should not remain open longer than physically necessary to execute the offsetting transaction.

In addition, the parties have agreed that the Company will continue to file with the Board and the RPA a monthly report, detailing all natural gas trades related to NJNG's Storage Incentive Program. Should an exception occur, whereby NJNG engages in a trade that remains in an open position past the timeframe described above, such exception will be specifically identified within the report along with an explanation. In the event that such an exception should occur, NJNG will bear the burden of demonstrating that such trade is not speculative.

Moreover, NJNG's currently effective Risk Management Policy does not allow for "speculative trading." Should the Risk Management Policy be amended in such a way as to allow for "speculative trading", NJNG will promptly provide written notice to the RPA and the Board.

Nothing in this Order shall be interpreted to preclude the Board from taking actions determined to be necessary as a result of any Board analysis of the gas hedging practices of NJNG. Additionally, the Company's gas costs will remain subject to audit by the Board. This Decision and Order shall not preclude the Board from taking any such actions deemed to be appropriate as a result of any Board Ordered audit.

The Board has reviewed the March 17, 2006 letter filed by NJNG and HEREBY FINDS that the clarifications contained in the letter are reasonable and in the public interest. Accordingly, the Board HEREBY INCORPORATES the provisions of the agreement entered into by the parties and expressed in the March 17, 2006 letter as if fully set forth herein.

DATED: 4/13/06

BOARD OF PUBLIC UTILITIES
BY:

Jeanne M. Fox
JEANNE M. FOX
PRESIDENT

Frederick F. Butler
FREDERICK F. BUTLER
COMMISSIONER

Connie O. Hughes
CONNIE O. HUGHES
COMMISSIONER

Joseph L. Fiordaliso
JOSEPH L. FIORDALISO
COMMISSIONER

Christine B
CHRISTINE V. BATOR
COMMISSIONER

ATTEST:

Kristi Izzo
KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities

Kristi Izzo

In the Matter of the Petition of New Jersey Natural Gas Company for the Annual Review and Revision of its Basic Gas Supply Service Factors
Docket No. GR05060488

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State of New Jersey
OFFICE OF ADMINISTRATIVE LAW

ORDER

APPROVING PARTIAL STIPULATION

OAL DKT. NO. PUC 11951-05

AGENCY DKT. NO. GR05060488

I/M/O THE PETITION OF NEW JERSEY NATURAL GAS COMPANY FOR THE ANNUAL REVIEW AND APPROVAL OF IT'S BASIC GAS SUPPLY SERVICE (BGSS) FOR FISCAL YEAR 2006

Tracey Thayer, Esq., for New Jersey Natural Gas Company, petitioner

Sarah Steindel and Gina Hunt, Assistant Deputy Ratepayer Advocates, for the Division of the Ratepayer Advocate, intervener (Seema Singh, Director, attorney)

Babette Tenzer and Suzana Loncar, Deputy Attorney Generals, for the Staff of the Board of Public Utilities (Zulima V. Farber, Attorney General of New Jersey, attorney)

BEFORE DIANA C. SUKOVICH, ALJ

On June 1, 2005, petitioner filed a petition with the Board of Public Utilities (BPU), requesting that the BPU accept its annual reconciliation filing for petitioner's BGSS. The BPU transmitted the matter to the Office of Administrative Law (OAL) on October 27, 2005 for determination as a contested case pursuant to N.J.S.A. 52:14F-1 to -13

The matter was assigned to this judge, on December 2, 2005, and a telephone conference was conducted on January 20, 2006. An executed Partial Stipulation (Stipulation), addressing petitioner's incentive programs currently in effect, was filed on January 30, 2006; and original signature pages, on February 1, 2006. The Stipulation also sets forth the procedural history of the matter prior to transmittal to the OAL. Attached herewith is a copy of the Stipulation.

I **FIND** that the parties have voluntarily agreed to the Stipulation, as evidenced by their signatures, or the signatures of their representatives, and the Stipulation is consistent with the law.

Therefore, I **CONCLUDE** that the Stipulation should be approved. Accordingly, it is **ORDERED** that the Stipulation be and is hereby **APPROVED**.

This order may be reviewed by the Board of Public Utilities, either upon interlocutory review, pursuant to N.J.A.C. 1:1-14.10, or at the end of the contested case, pursuant to N.J.A.C. 1:1-18.6.

Feb 6, 2006
DATE

Diana C. Sukovich
DIANA C. SUKOVICH, ALJ

lr

WHEREFORE, the Parties hereto do respectfully submit this Stipulation and request that the Administrative Law Judge issue an Initial Decision adopting the terms of this Stipulation and that the Board issue a Decision and Order approving it in its entirety, in accordance with the terms hereof, as soon as reasonably possible.

NEW JERSEY NATURAL GAS
PETITIONER

By: Tracey Thayer
TRACEY THAYER, ESQ.
NEW JERSEY NATURAL GAS

DIVISION OF THE RATEPAYER ADVOCATE
SEEMA M. SINGH, ESQ., RATEPAYER ADVOCAT

By: ____________________________
SARAH STEINDEL, ESQ.,
ASSISTANT DEPUTY RATEPAYER ADVOCATE

STAFF OF THE NEW JERSEY BOARD OF PUBLIC UTILITIES
NANCY KAPLEN, ACTING ATTORNEY GENERAL OF NEW JERSEY

By: ______________________
BABETTE TENZER, ESQ.
SUZANA LONCAR, ESQ.
DEPUTY ATTORNEYS GENERAL

Date: January __, 2006

WHEREFORE, the Parties hereto do respectfully submit this Stipulation and request that the Administrative Law Judge issue an Initial Decision adopting the terms of this Stipulation and that the Board issue a Decision and Order approving it in its entirety, in accordance with the terms hereof, as soon as reasonably possible.

NEW JERSEY NATURAL GAS
PETITIONER

By: ______________________
TRACEY THAYER, ESQ.
NEW JERSEY NATURAL GAS

DIVISION OF THE RATEPAYER ADVOCATE
SEEMA M. SINGH, ESQ., RATEPAYER ADVOCATE

By: ______________________
SARAH STEINDEL, ESQ.,
ASSISTANT DEPUTY RATEPAYER ADVOCATE

STAFF OF THE NEW JERSEY BOARD OF PUBLIC UTILITIES
NANCY KAPLEN, ACTING ATTORNEY GENERAL OF NEW JERSEY

By: ______________________
BABETTE TENZER, ESQ.
SUZANA LONCAR, ESQ.
DEPUTY ATTORNEYS GENERAL

Date: January 26 2006

New Jersey Natural Gas Company
Storage Incentive
Impacts of Trading Positions
Illustrative Example

Scenario 1 - A loss in one month is offset by a gain in another

NJNG sells April positions and buys October positions at the same time.
The sale of the April positions result in a loss.
The loss is offset by the gain incurred by buying the October positions.
The net volume in the storage incentive remains the same.
NJNG *does* trade positions in this manner and this is *not* speculative trading.

			BCF	Price
Storage Incentive Volume			18.0	$6.50
Sold April positions			(0.1)	$6.00
Bought October Positions			0.1	$5.75
	Net volume		**18.0**	
April	Benchmark	$ per Dth	$6.50	
	Selling price	$ per Dth	$6.00	
	Loss	$ per Dth	($0.50)	
	Volume	Dth	(100,000)	
	Loss		**$50,000**	
October	Benchmark	$ per Dth	$6.50	
	Buying price	$ per Dth	$5.75	
	Gain	$ per Dth	($0.75)	
	Volume	Dth	100,000	
	Gain		**($75,000)**	
	Net Gain before sharing		**($25,000)**	**Shared according to approved percentages**

New Jersey Natural Gas Company
Storage Incentive
Impacts of Trading Positions
Illustrative Example

The following two examples are provided to illustrate speculative trading and how a loss would be treated. Any trade that results in the storage incentive positions not representing the exact volume of the program would be a speculative trade. However, NJNG's Risk Management Guidelines do not allow speculative trading.

Scenario 2 - The sale of positions results in a loss

NJNG sells April positions without offsetting buy positions.
The sale of the April positions result in a loss.
The net volume in the storage incentive is temporarily decreased.
NJNG does *not* trade positions in this manner and this *is* speculative trading.

			BCF	Price	
Storage Incentive Volume			18.0	$6.50	
Sold April positions			(0.1)	$6.00	
	Net volume		**17.9**		
April	Benchmark	$ per Dth	$6.50		
	Selling price	$ per Dth	$6.00		
	Loss	$ per Dth	($0.50)		
	Volume	Dth	(100,000)		
	Loss		**$50,000**	**Absorbed by the Company**	

Scenario 3 - The purchase of positions results in a loss

NJNG buys October positions without offsetting sell positions.
The purchase of the October positions result in a loss.
The net volume in the storage incentive is temporarily increased.
NJNG does *not* trade positions in this manner and this *is* speculative trading.

			BCF	Price	
Storage Incentive Volume			18.0	$6.50	
Bought October Positions			0.1	$6.75	
	Net volume		**18.1**		
October	Benchmark	$ per Dth	$6.50		
	Buying price	$ per Dth	$6.75		
	Loss	$ per Dth	$0.25		
	Volume	Dth	100,000		
	Loss		**$25,000**	**Absorbed by the Company**	

STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

IN THE MATTER OF THE PETITION OF	)	
NEW JERSEY NATURAL GAS COMPANY	)	
FOR THE ANNUAL REVIEW AND	)	BPU DOCKET NO. GR05060488
APPROVAL OF ITS BASIC GAS SUPPLY	)	OAL DOCKET NO. PUCRL 11951-
SERVICE (BGSS) FOR F/Y 2006	)	2005N

PARTIAL STIPULATION

APPEARANCES:

Tracey Thayer, Esq., New Jersey Natural Gas Company for the Petitioner, New Jersey Natural Gas Company

Sarah Steindel, Esq., Assistant Deputy Ratepayer Advocate, Division of the Ratepayer Advocate and **Gina Hunt, Esq.**, Assistant Deputy Ratepayer Advocate (**Seema M. Singh, Esq.**, Ratepayer Advocate)

Babette Tenzer, Esq. and **Suzana Loncar, Esq.**, Deputy Attorneys General, for the Staff of the Board of Public Utilities (**Nancy Kaplen, Esq.**, Acting Attorney General of New Jersey)

TO: THE HONORABLE DIANA SUKOVICH, ADMINISTRATIVE LAW JUDGE AND THE NEW JERSEY BOARD OF PUBLIC UTILITIES

New Jersey Natural Gas Company (NJNG) filed its petition in Docket No. GR05060488 on June 1, 2005 requesting that the New Jersey Board of Public Utilities (BPU or Board) accept NJNG's annual reconciliation filing for its Basic Gas Supply Service (BGSS). The filing included the Company's related request for BPU approval to increase the BGSS rate applicable to those customers subject to the Periodic BGSS Pricing Mechanism by $0.0540 per therm after tax, effective October 1, 2005, increasing the current after tax rate by 4.2 percent from $0.8921 per therm to $0.9461 per therm. The projection of NJNG's under-/over-recovery of natural gas costs was based on market conditions as of the time of the June 1, 2005 filing with a proposed one-year BGSS recovery period. Additionally, the Company sought BPU approval of a one-year extension of all BGSS related incentive programs that were approved by the BPU in Docket No. GR02100760 in an order dated November 13, 2003.

2. On July 21, 2005, NJNG submitted an amendment to the initial petition in this case, seeking BPU approval to change the effective date of the requested rate increase from October 1, 2005 to September , 2005. That request was necessary in light of the significant increases and volatility in the market price for natural gas that had continued since the June 1 filing.

3 A public hearing on this petition was held on August 3, 2005, in Freehold Borough. No members of the public appeared to provide comments relating to NJNG's requests in this proceeding.

4. In an order dated August 19, 2005, the BPU provisionally approved the Company's request for a 4.2 percent increase of $.0540 to the after-tax BGSS rate, increasing the rate to $0.9461. That rate was effective on September 1, 2005 and remains subject to review and refund with interest following a full review by the Staff of the BPU and the Division of the Ratepayer Advocate (RPA), the only other parties in this proceeding (Parties).

5. On September 19, 2005, the Company submitted a letter to Kristi Izzo, Secretary for the BPU, seeking Board approval to modify the 30-day notice period prior to self-implementing a rate increase[1] to a 15-day advance notice period. Due to the rising wholesale

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[1] Pursuant to a January 6, 2003 Order of the BPU in Docket No. GX01050304 (January 6 Order), a mechanism was approved allowing local natural gas distribution companies (GDC) to self-implement two rate increases, if necessary, of up to 5 percent each to be effective in the months of December and

price of natural gas, NJNG sought a shorter notice period in order to provide customers/ratepayers with more accurate price signals about the actual cost of gas as reflected in forward prices from the New York Mercantile Exchange (NYMEX), especially the December and February contract prices which are the months in which self-implementing increases could be put into effect. In an order dated October 3, 2005 in Docket No. GX01050304, the BPU approved that request for NJNG and the other local distribution companies in this state.

6. On November 10, 2005, NJNG filed a Motion for Emergent Rate Relief (Motion) in this docket seeking BPU approval for a rate increase from the current after-tax rate of $0.9461 per therm to an after-tax rate of $1.2597 per therm. This proposed rate change would result in an increase in the heating bill of the average residential customer using 100 therms a month from $134.93 to $166.29, an increase of $31.36 or approximately 23.2 percent a month. The motion sought to have this proposed rate increase replace the self-implementing rate increase of up to 5 percent that would otherwise have been available to NJNG on December 1. In the Motion, NJNG also requested Board approval for the February 1, 2006 self-implementing increase of up to 5 percent, if necessary, and sought BPU approval that such an increase could be made with 15 days' notice to the BPU Staff and the Ratepayer Advocate. If the Company needed to employ the self-implementing increase as of February 1, 2006, such a rate change would have further increased the heating bill of the average residential customer using 100 therms a month by approximately $8.31. The Company requested that the BPU retain and hear the Motion. NJNG asserted that the relief sought in its motion was necessary due to the dramatic increases in wholesale natural gas prices

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February. Those increases are linked to the annual Basic Gas Supply Service (BGSS) filings that must be made in June by each GDC and subject to the notice and public hearing requirements for each annual filing. Additionally, the order requires that the GDC provide 30 day notice to the BPU and the Division of the Ratepayer Advocate (RPA) that such an increase will be implemented. These self-implementing BGSS rate increases are provisional in nature, subject to review, true up and final approval in the subsequent annual BGSS filing.

across the country. Since NJNG made its filing on June 1, 2005, wholesale natural gas prices had increased by approximately 56 percent. The NYMEX Strip average closing price on May 12, 2005 used in the June filing was $7.15 per Dth for the October 2005 through September 2006 period For this same period, the November 4, 2005 NYMEX Strip average of settlement and futures prices used for the November 10, 2005 Motion was $1 .12 per Dth.

7. A public hearing on the rate increase requested in the November 10, 2005 Motion took place on December 6, 2005, at the Freehold Township Municipal Building. Approximately eight members of the public attended the hearing and six made comments that are included in the record of this proceeding.

8. On December 14, 2005, the BPU approved a stipulation agreed to by the Company, the staff of the BPU and the Division of the Ratepayer Advocate wherein the Parties agreed to a provisional increase in the rate as requested by NJNG in the Motion. The Parties further agreed that NJNG would waive its authority to self-implement an increase of up to 5 percent to be effective on February 1, 2006.

10. Representatives of NJNG, Board Staff and the RPA have met to discuss certain other matters at issue in this proceeding and, as a result of those discussions, the Parties have reached this partial settlement concerning the NJNG incentive programs currently in effect. This Stipulation does not address the BGSS rate approved on a provisional basis by the BPU on December 14, 2005 and does not alter the provisional status of that rate.

Specifically, the Parties **STIPULATE AND AGREE** that the following BGSS incentives, approved by the BPU on November 13, 2003 in Docket No. GR02100760 and discussed below, will be extended for one year to October 31, 2007. The BGSS related incentive programs that will continue by the terms of this Stipulation are as follows:

a. Off-System Sales and Capacity Release The Company's current off-system sales and capacity release incentive programs, pursuant to which margins generated by off-system sales and released firm capacity are shared between customers and the Company on an 85/15 percentage basis, shall continue as currently structured until October 31 2007.

b. Financial Risk Management (FRM) The purpose of this program is to provide customers with the benefits of financial risk management tools through the acquisition of risk management expertise and the application of risk management techniques. The benefits from the FRM are shared between customers and the Company on an 80/20-percentage basis The FRM shall continue as currently structured until October 31, 2007.

c. On-System Interruptible Sales, Transportation and Other Sharing The Company's current incentive programs applicable to: (1) sales of gas to the Sayreville and Forked River Electric Generation Plants, pursuant to which margins are shared between customers and the Company on a 90/10 percentage basis, after an initial contribution to customers of $0.01 per therm; (2) on-system interruptible sales of gas, pursuant to which margins are shared between customers and the Company on a 90/10 percentage basis; and (3) on-system interruptible transportation, pursuant to which margins are shared between customers and the Company on a 95/5 percentage basis will continue until October 31, 2007. Since the Market Development Fund (MDF)[2] incentives will expire as of October 31, 2006, as of November 1, 2006, the initial five percent generated from the on-system interruptible transportation incentive will no longer be credited to the MDF

[2] In the unbundling proceeding (BPU Docket No. GO99030123), the Board approved an NJNG proposal that certain funds made available through prior tax changes be used to establish the MDF as an additional means of encouraging third party supplier (TPS) activity in New Jersey.

and will, instead, revert to the former mechanism where those margins are shared between customers and the Company on a 95/5-percentage basis.

d. Storage Incentive. A multi-year Storage Incentive Program applicable to storage injections was initiated by the Company subsequent to an agreement reached among the parties in Docket No. GR02100760 and approved by the Board in an order dated November 13, 2003 Pursuant to this program, customers and the Company share storage-related gains and losses on an 80/20 percentage basis, as measured by the difference between the actual cost of storage incurred by the Company (including the cost of the physical commodity, transportation costs and financial hedging costs) and an agreed-upon storage inventory cost benchmark established through NYMEX forward prices applicable to the April through October injection season, plus projected transportation costs. Speculative trading activity is not permitted under NJNG's current Risk Management Guidelines (Guidelines). If those Guidelines change such that speculative trading is permitted, NJNG will notify the Parties. The Parties agree that if any such speculative trading should occur, any losses thereto will be absorbed one hundred percent by the Company Any gains from such trading will be shared with customers as outlined above. Exhibit A provides examples of transactions that would and would not be considered speculative trading. The term of the Storage Incentive Program shall continue through October 31, 2007. The storage capacity included in the program shall not be increased from 18 bcf during this time frame.

12. The Company agrees that a review of the existing structure of the BGSS incentives is appropriate and agrees to initiate discussions among the Parties by no later than May 15, 2006 concerning potential changes to the BGSS incentives. Based on the outcome of those discussions,

by September 15, 2006 the Company will file with the BPU a proposal concerning BGSS incentives to be effective after October 3 2007. The Company intends to include in the above filing a proposal to modify the sharing provisions and address interest treatment for storage inventory balances within the Storage Incentive program.

13. The Parties further agree that this Stipulation fully disposes of all issues in controversy in this proceeding concerning the Incentive Programs for NJNG.

14. The parties acknowledge, pursuant to the Board's December 15, 2005 Order in this docket, that the Board directed staff to hire a consultant to analyze the gas hedging practices of all four gas distribution companies and to provide the Board with reports and recommendations regarding these practices The parties agree that nothing in this stipulation shall preclude the Board from taking actions determined to be necessary as a result of that Board directive.

15. This Stipulation represents a mutual balancing of interests, contains interdependent provisions and, therefore, is intended to be accepted and approved in its entirety. In the event any provision of this Stipulation is not accepted and approved in its entirety by the Board, any Party aggrieved thereby shall not be bound to proceed with this Stipulation and shall have the right to litigate all issues addressed herein to a conclusion. More particularly, in the event the Board, in any applicable order(s), does not adopt this Stipulation in its entirety then any Party hereto is free to pursue its then available legal remedies with respect to all issues addressed in this Stipulation as though this Stipulation had not been signed.

16 It is the intent of the Parties that the provisions hereof be approved by the Board as being in the public interest. The Parties further agree that they consider the Stipulation to be binding on them for all purposes herein.

7 It is specifically understood and agreed that this Stipulation represents a

negotiated agreement and has been made exclusively for the purpose of these proceedings. Except as expressly provided herein, neither NJNG, the Board, its Staff, nor the Ratepayer Advocate shall be deemed to have approved, agreed to, or consented to any principle or methodology underlying or supposed to underlie any agreement provided herein.

WHEREFORE, the Parties hereto do respectfully submit this Stipulation and request that the Administrative Law Judge issue an Initial Decision adopting the terms of this Stipulation and that the Board issue a Decision and Order approving it in its entirety, in accordance with the terms hereof, as soon as reasonably possible.

NEW JERSEY NATURAL GAS
PETITIONER

By: [signature]
TRACEY THAYER, ESQ.
NEW JERSEY NATURAL GAS

DIVISION OF THE RATEPAYER ADVOCATE
SEEMA M. SINGH, ESQ., RATEPAYER ADVOCATE

By: [signature]
SARAH STEINDEL, ESQ.,
ASSISTANT DEPUTY RATEPAYER ADVOCATE

STAFF OF THE NEW JERSEY BOARD OF PUBLIC UTILITIES
NANCY KAPLEN, ACTING ATTORNEY GENERAL OF NEW JERSEY

By: [signature]
BABETTE TENZER, ESQ.
SUZANA LONCAR, ESQ.
DEPUTY ATTORNEYS GENERAL

Date: January 26 2006

New Jersey Natural Gas Company
Storage Incentive
Impacts of Trading Positions
Illustrative Example

Scenario 1 - A loss in one month is offset by a gain in another

NJNG sells April positions and buys October positions at the same time.
The sale of the April positions result in a loss.
The loss is offset by the gain incurred by buying the October positions.
The net volume in the storage incentive remains the same.
NJNG *does* trade positions in this manner and this is *not* speculative trading.

	BCF	Price
Storage Incentive Volume	18.0	$6.50
Sold April positions	(0.1)	$6.00
Bought October Positions	0.1	$5.75
Net volume	**18.0**	

April	Benchmark	$ per Dth	$6.50
	Selling price	$ per Dth	$6.00
	Loss	$ per Dth	($0.50)
	Volume	Dth	(100,000)
	Loss		**$50,000**
October	Benchmark	$ per Dth	$6.50
	Buying price	$ per Dth	$5.75
	Gain	$ per Dth	($0.75)
	Volume	Dth	100,000
	Gain		**($75,000)**
	Net Gain before sharing		**($25,000)** **Shared according to approved percentages**

[redacted] [redacted]

New Jersey Natural Gas Company
Storage Incentive
Impacts of Trading Positions
Illustrative Example

The following two examples are provided to illustrate speculative trading and how a loss would be treated. Any trade that results in the storage incentive positions not representing the exact volume of the program would be a speculative trade. However, NJNG's Risk Management Guidelines do not allow speculative trading.

Scenario 2 - The sale of positions results in a loss

NJNG sells April positions without offsetting buy positions.
The sale of the April positions result in a loss.
The net volume in the storage incentive is temporarily decreased.
NJNG does *not* trade positions in this manner and this *is* speculative trading.

			BCF	Price
Storage Incentive Volume			18.0	$6.50
Sold April positions			(0.1)	$6.00
	Net volume		**17.9**	
April	Benchmark	$ per Dth	$6.50	
	Selling price	$ per Dth	$6.00	
	Loss	$ per Dth	($0.50)	
	Volume	Dth	(100,000)	
	Loss		**$50,000**	**Absorbed by the Company**

Scenario 3 - The purchase of positions results in a loss

NJNG buys October positions without offsetting sell positions.
The purchase of the October positions result in a loss.
The net volume in the storage incentive is temporarily increased.
NJNG does *not* trade positions in this manner and this *is* speculative trading.

			BCF	Price
Storage Incentive Volume			18.0	$6.50
Bought October Positions			0.1	$6.75
	Net volume		**18.1**	
October	Benchmark	$ per Dth	$6.50	
	Buying price	$ per Dth	$6.75	
	Loss	$ per Dth	$0.25	
	Volume	Dth	100,000	
	Loss		**$25,000**	**Absorbed by the Company**